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TAX EXPENDITURES: WHO GETS WHAT

June 1987

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TAX EXPENDITURES: WHO GETS WHAT

'Tax expenditures' is the term used for deductions and exemptions, credits, preferential tax rates, deferrals of tax and tax reductions which reduce the amount of taxes owed by individuals and corporations. With few exceptions these tax breaks benefit high-income taxpayers most, middle-income taxpayers less and low-income Canadians least.


The following tables show who gets what from several of the better-known tax expenditures in the personal income tax system. Since the federal government does not release up-to-date and comprehensive information on tax expenditures, the figures in the following tables were produced by the National Council of Welfare using our own methodology and Revenue Canada data for the 1984 taxation year, the most recent available. **Our estimates suggest that federal personal income tax expenditures cost in the order of \$25 billion in 1984.**

Each table divides taxfilers into six income groups (\$10,000 and under; \$10,000 to \$20,000; \$20,000 to \$30,000; \$30,000 to \$40,000; \$40,000 to \$50,000; and \$50,000 and above). The first column ('Takeup Rate') shows the percentage of taxfilers in each income group who claimed the exemption or deduction. The second column ('Average Benefit') shows the average benefit in the form of federal tax savings for persons in each income group who claimed the exemption or deduction. (Provincial income tax savings add roughly half to this amount). The third column ('Share of Benefits') gives the income group's share of total tax savings from the tax expenditure, while the fourth column ('Share of Claimants') shows the income group's percentage of all taxfilers who claim the particular tax expenditure.

The 'Inequality Index' divides each income group's share of benefits by its share of claimants. If the result is less than 1.0, the income group gets less than its fair share of benefits, in the sense that its share of tax savings is smaller than its share of claimants. An inequality index of more than 1.0 indicates that taxfilers in a particular income group enjoy a larger share of benefits than their proportion of taxfilers claiming the tax exemption or deduction.

The figures vary from table to table, but two patterns emerge clearly. **In every case, the higher the taxfilers' income group, the higher their benefit from the tax expenditure. In every case, taxfilers in the lowest income group get a disproportionately small share of benefits, as evidenced by an inequality index of less than 1.0.**

While it is true that tax savings from exemptions and deductions are largest for upper-income Canadians, nonetheless many low and all middle-income taxpayers do benefit from such tax concessions. (The column 'Share of Benefits' in the tables that follow shows the percentage of federal tax savings held by claimants in each income group.) However, certain tax expenditures - such as the deductions for private pension plan and RRSP - contributions - are concentrated at higher income levels whereas others such as the age and personal exemptions - deliver a large portion of their benefits to low and middle-income individuals and families.



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Table 1

**Distribution of Personal Exemption, Claimants and Benefits,
1984 Tax Year**

Income Group (\$000)	Takeup Rate	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under 10	99.8%	\$ 386	21.2%	37.4%	0.57
10-20	100.0	731	28.9	26.9	1.07
20-30	100.0	845	21.9	17.7	1.24
30-40	100.0	990	14.7	10.1	1.45
40-50	100.0	1,064	6.7	4.3	1.56
50 and over	99.9	1,244	6.5	3.6	1.83
Average	99.9	681			

Note

1. Taxfilers can exempt from taxable income \$4,220 for 1987 (\$3,960 for 1984).
2. Estimated cost of the personal exemption to the federal government - \$10.5 billion.
3. 'Takeup Rate' is percentage of taxfilers in each income group who claim the personal exemption.
4. 'Average Benefit' is average federal tax savings per claimant from the personal exemption for each income group.
5. 'Share of Benefits' is each income group's percentage of federal tax savings from the personal exemption.
6. 'Share of Claimants' is each income group's percentage of taxfilers who claim the personal exemption.
7. 'Inequality Index' is share of benefits divided by share of claimants. Figures under 1.0 indicate the income group's claimants get a disproportionately low share of tax savings from the personal exemption. Figures over 1.0 indicate the income group's claimants get a disproportionately large share of tax savings from the personal exemption.

Table 2

Distribution of Age Exemption Claimants and Benefits, 1984 Tax Year

Income Group (\$000)	Takeup Rate	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under 10	9.5%	\$335	27.3%	36.5%	0.75
10-20	13.9	455	39.0	38.3	1.02
20-30	7.4	524	15.7	13.4	1.17
30-40	5.1	620	7.4	5.4	1.38
40-50	6.1	669	4.0	2.7	1.49
50 and over	10.1	790	6.5	3.7	1.76
Average	9.7	448			

Note

1. Taxfilers age 65 and older can exempt \$2,640 for the 1987 tax year (\$2,480 in 1984) from their taxable income.
2. Estimated cost to the federal government in 1984 - \$677 million.

Table 3

Distribution of Married or Equivalent Exemption, Claimants and Benefits,
1984 Tax Year

Income Group (\$000)	Takeup Rate	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under 10	7.7%	\$341	8.6%	15.6%	0.55
10-20	18.2	531	22.8	26.5	0.86
20-30	25.4	640	25.3	24.4	1.04
30-40	33.1	749	22.1	18.2	1.21
40-50	37.3	808	11.4	8.7	1.31
50 and over	34.3	917	9.9	6.6	1.49
Average	18.4	617			

Note

1. Taxfilers can exempt from taxable income \$3,700 for the 1987 tax year (\$3,470 in 1984) in respect of a spouse they support and whose own income is less than \$520. A single, divorced, separated or widowed taxfiler can claim the same exemption in respect of one child or other live-in dependent relatives.
2. Estimated cost to the federal government in 1984 - \$1.7 billion.

Table 4

**Distribution of Children's Tax Exemption
Claimants and Benefits, 1984 Tax Year**

Income Group (\$000)	Takeup Rate	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under 10	8.3%	\$139	6.2%	13.9%	0.45
10-20	17.9	258	17.9	21.6	0.83
20-30	32.3	302	24.9	25.6	0.97
30-40	45.8	366	24.5	20.8	1.18
40-50	52.5	411	13.4	10.1	1.32
50 and over	49.8	511	13.1	8.0	1.65
Average	22.3	311			

Note

1. A single parent or (usually) the spouse with the higher income in a couple can deduct from taxable income \$560 for the 1987 tax year (\$710 in 1984) for each dependent child under age 18.
2. Estimated cost to the federal government in 1984 - \$1.1 billion.

Table 5

**Distribution of Deduction for Canada/Quebec Pension Plan Contributions
Claimants and Benefits, 1984 Tax Year**

Income Group (\$000)	Takeup Rate	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under 10	43.5%	\$ 10	4.4%	23.1%	0.19
10-20	80.6	39	22.8	30.8	0.74
20-30	90.3	71	30.7	22.6	1.36
30-40	93.4	85	22.0	13.4	1.64
40-50	92.5	92	10.0	5.6	1.78
50 and over	86.9	118	10.0	4.4	2.26
Average	70.4	52			

Note

1. Employees contribute 1.9 percent of their earnings between \$2,500 and \$25,900 to the Canada or Quebec Pension Plan; the self-employed pay 3.8 percent of this amount in 1987. Taxfilers can deduct their C/QPP contributions from their taxable income.
2. Estimated cost to the federal government in 1984 - \$570 million.

Table 6

**Distribution of Deduction for Unemployment Insurance Premiums,
Claimants and Benefits, 1984 Tax Year**

Income Group (\$000)	Takeup Rate	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under 10	49.2%	\$ 13	5.1%	27.1%	0.19
10-20	73.2	52	22.3	29.0	0.77
20-30	84.4	95	30.9	21.9	1.41
30-40	88.0	120	23.5	13.1	1.79
40-50	85.5	131	10.5	5.4	1.95
50 and over	65.7	150	7.7	3.5	2.22
Average	68.0	67			

Note

1. Employees pay 2.35 percent of their insurable earnings to the unemployment insurance program. They can deduct their unemployment insurance premiums from their taxable income.
2. Estimated cost to the federal government in 1984 - \$711 million.

Table 7

**Distribution of Deduction for Registered Pension Plan Contributions,
Claimants and Benefits, 1984 Tax Year**

Income Group (\$000)	Takeup Rate	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under 10	1.6%	\$ 33	0.3%	2.8%	0.11
10-20	16.8	109	7.3	20.2	0.36
20-30	43.1	219	24.8	34.1	0.73
30-40	54.4	367	30.0	24.7	1.22
40-50	59.1	527	19.9	11.4	1.75
50 and over	43.1	779	17.8	6.9	2.58
Average	22.3	302			

Note

1. Taxfilers can deduct from their taxable income the amount they contribute to a registered private pension plan in 1987 (the limit was \$3,500 in 1984).
2. Estimated cost to the federal government in 1984 - \$1 billion.

Table 8

**Distribution of Deduction for RRSP Contributions, Claimants and Benefits,
1984 Tax Year**

Income Group (\$000)	Takeup Rate	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under 10	1.9%	\$ 117	0.9%	4.2%	0.22
10-20	13.3	272	10.6	21.1	0.50
20-30	26.8	431	22.0	27.8	0.79
30-40	38.4	569	23.9	22.9	1.04
40-50	48.9	661	15.0	12.3	1.21
50 and over	55.2	1,300	27.6	11.6	2.39
Average	17.0	545			

Note

1. For the 1987 tax year, an employee who belongs to a private pension plan but who has contributed less than \$3,500 can put some or all of the difference into an RRSP and claim this amount as an additional deduction. The part of the difference that can be sheltered from tax is limited by a person's earnings: RRSP contributions added to contributions to a private pension plan cannot exceed \$3,500 or 20 percent of earned income. Persons who do not belong to a private pension plan - including the self-employed - may contribute a full 20 percent of their earnings to an RRSP up to a limit of \$7,500 and claim this amount as a tax deduction.
2. Estimated cost to the federal government in 1984 - \$1.4 billion.

Table 9

**Distribution of Deduction for Interest Income, Claimants and Benefits,
1984 Tax Year**

Income Group (\$000)	Takeup Rate	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under 10	29.6%	\$ 76	13.9%	23.8%	0.59
10-20	49.1	121	26.4	28.3	0.93
20-30	55.9	132	21.5	21.1	1.02
30-40	63.4	156	16.6	13.8	1.20
40-50	72.9	183	9.4	6.7	1.41
50 and over	83.2	249	12.2	6.4	1.92
Average	46.7	130			

Note

1. Taxfilers can deduct from taxable income up to \$1,000 in income earned on savings and investments, including dividends from Canadian corporations.
2. Estimated cost to the federal government in 1984 - \$941 million.

Table 10

**Distribution of Pension Income Deduction, Claimants and Benefits,
1984 Tax Year**

Income Group (\$000)	Takeup Rate	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under 10	3.2%	\$131	11.8%	17.2%	0.69
10-20	11.4	177	40.3	43.4	0.93
20-30	8.3	204	22.3	20.7	1.07
30-40	6.9	242	12.5	9.8	1.27
40-50	7.0	257	5.8	4.3	1.35
50 and over	9.2	302	7.3	4.6	1.59
Average	7.1	190			

Note

1. Taxfilers can deduct from taxable income up to \$1,000 in income received from a private pension plan or RRSP.
2. Estimated cost to the federal government in 1984 - \$209 million.

Table 11

**Distribution of Child Care Expense Deduction, Claimants and Benefits,
1984 Tax Year**

Income Group (\$000)	Takeup Rate	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under 10	1.6%	\$132	8.3%	18.8%	0.44
10-20	5.3	271	39.8	43.8	0.91
20-30	4.6	369	30.9	24.9	1.24
30-40	2.7	458	13.0	8.5	1.54
40-50	1.9	509	4.3	2.5	1.71
50 and over	1.4	736	3.7	1.5	2.47
Average	3.2	298			

Note

1. A single parent or the spouse with the lower income in a couple can deduct from taxable income up to \$2,000 per child to a family maximum of \$8,000 for receipted child care expenses incurred to allow the taxfiler to work in the paid labor force or to take a training course.
2. Estimated cost to the federal government in 1984 - \$150 million.

Table 12

Distribution of Deduction for Charitable Donations, Claimants and Benefits, 1984 Tax Year

Income Group (\$000)	Takeup Rate	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under 10	6.0%	\$ 35	2.7%	8.7%	0.31
10-20	25.2	62	14.4	26.4	0.55
20-30	37.7	77	17.6	26.0	0.68
30-40	49.1	105	17.9	19.4	0.92
40-50	59.4	144	12.6	10.0	1.27
50 and over	68.2	417	34.8	9.5	3.66
Average	25.6	114			

Note

1. Taxfilers can deduct from taxable income receipted donations to registered charities and Canadian amateur athletic associations to a maximum of 20 percent of their net income for the year.
2. Estimated cost to the federal government in 1984 - \$454 million.

